

**MINUTES**  
**BOARD OF TRUSTEES OF THE**  
**PUBLIC EMPLOYEES' RETIREMENT FUND**  
**143 West Market Street, Suite 500**  
**Indianapolis, Indiana 46204**  
**December 16, 2005**

**REGULAR SESSION**

**Board Members Present**

Ken Cochran, Chair  
Chuck Schalliol, Vice Chair  
Kathy Ettensohn  
Bob Welch  
Regina Overton

**Board Members Absent**

Matt Murphy

**Others Present**

Doug Todd, McCready & Keene  
Richard Lenar, McCready & Keene  
Elaine Beaty, McCready & Keene  
Doug Kryscio, Mercer Investment Consulting  
Iliana Nikolova, Mercer Investment Consulting  
Curt Smith, Strategic Investment Solutions, Inc.  
Greg Strack, State Budget Agency

**PERF Staff Present**

David Adams, Executive Director  
Terry Magid, Chief Operating Officer & Deputy Director  
Dave Huffman, Chief Technology Officer & Deputy Director  
Charles Johnson, Chief Financial Officer  
Andrea Unzicker, General Counsel  
Erin Hankins, Assistant to the Executive Director  
Jayelynn Willman, Executive Assistant to the Board

Meeting called to order at 1:00pm by Chairman Cochran.

**I. Approval of Minutes**

**MOTION** duly made and carried to approve the minutes from the November 16, 2005 board meeting.

*Proposed by:*                      *Chuck Schalliol*  
*Seconded by:*                  *Bob Welch*

Votes:

*5 in favor, 0 opposed, 0 abstentions*

## **II. Old Business**

There was no old business to discuss.

## **III. Executive Director Report**

David J. Adams stated that the Governor had held a press conference earlier in the day highlighting two exciting announcements at PERF. The first announcement dealt with PERF locating in excess of forty thousand members who had lost contact with the fund. During the press conference, Governor Daniels was able to distribute refund checks to three individuals. PERF has created an internal process to reduce this problem from occurring in the future.

The second announcement involved PERF identifying four counties (Allen, Clay, Saint Joseph and Wells) that had privatized hospitals over the past fourteen years. PERF found net assets in excess of \$14 million for these counties. The board has the capability to merge those assets with the county assets and reduce the contribution rates for each of those counties moving forward. So PERF will ask the board to take a vote on approving those new contribution rates which will take effect January 1, 2006.

Mr. Adams reviewed the PERF Scorecard results with the board. In terms of statewide initiatives, PERF has recognized annual savings of \$1.4 million since measurements began in March of 2005. PERF has achieved a one time savings and efficiency gain of \$163,000 dollars. This savings is a reflection of cancelled contracts. Mr. Adams also reported that PERF now has \$340,000 in competitive sourcing savings.

From a financial performance standpoint, the fund passed the \$13 billion dollar threshold. Through the end of November fund assets stand at \$13.1 billion. PERF's one year rate of return is 9.6% and year to date is 9.4%. With respect to benefits, the average number of days to complete a refund stabilized at 72 days. The average number of days from retirement date to first check was reduced and customer Satisfaction at 75%.

Mr. Adams also discussed that since launching PERF Interactive in November 2005, 2100 members have registered and PERF has had over 500 different transaction changes. At the previous board meeting, Mike Henning discussed that the performance management program will be implemented in January 2006. It is PERF's intent to reward

employees that are performing well and establish action plans for underperforming employees.

Mrs. Ettensohn asked Mr. Adams to provide a comprehensive analysis of the Scorecard to track progress. Mr. Adams stated he would provide a report at the next board meeting.

#### **IV. New Business**

- **Investments**  
Investment Update

Mr. Adams introduced Doug Kryscio from Mercer who provided the board with an Investment Update.

For the one year net of fees, PERF is up 9.6% for the total fund compared to the reference index of 8.7%. The one area of concern that Mercer is reviewing is mid-cap equity. Wells and Brandes preformed slightly better this month than previously.

Mr. Kryscio discussed changes impacting Hughes Capital Management, PERF's 1-3 year manager. Mr. Kryscio discussed that the Ohio Bureau of Worker's Compensation (OBWC) recently terminated all their active managers – including Hughes Capital Management. Concerns about Hughes were mentioned recently in Pension and Investments because 15% of their assets were with OBWC. PERF represents 11% of Hughes' fund. Mercer is monitoring the situation and believes the firm will continue to do a good job for the 1-3 year benchmark.

Mr. Kryscio stated that Hughes has always performed well and that Mercer does not see a reason to pull out of the investment. He also stated that OBWC did not pull out of Hughes because they were underperforming. They in fact terminated all of their managers except for alternative investments.

Mr. Welch brought it to the boards' attention that Hughes Capital is a minority firm.

Mr. Welch and Mr. Schalliol stated that Mercer should continue to monitor Hughes.

Mr. Kryscio reviewed the alternative investments with the board. JPMorgan listed the funds and the market value as of Nov. 30th and the total commitment. JPMorgan also included a benchmark. Mr. Kryscio explained that the reason the one year return

is 53.8% and the benchmark is 15.3% are due to distributions occurring faster than anticipated. Mr. Kryscio also indicated that the Lexington Capital Partners commitment will be in the next report.

- **Audit & Budget**  
Financial Update

Mr. Adams introduced Terry Magid and Charles Johnson to discuss the financial update.

Mr. Johnson reviewed the financial statements with the board and noted that PERF is presenting investments information, not by investment type but by board policy. Changes in net assets for the period July – November 2005 increased by \$592,108,626 due to investment returns of \$702 million.

PERF is presenting and monitoring it's year to date actual with the 7% statewide budget reduction. PERF has spent 26% of the administrative budget and expenditures.

Mr. Adams noted that moving customers online with PERF Interactive could reduce the current \$500,000 in postage costs.

Mr. Johnson noted that Mr. Magid had mentioned that PERF needs to review posting and managing on an accrual basis. He has yet to explore the resources needed to complete this task and it is a proposition he will submit to the board at a future date.

#### SBOA Audit Update

Mr. Magid provided the board with an update on SBOA audit. PERF will be conducting its exit conference with the SBOA on Monday, December 19<sup>th</sup> at 3pm. PERF had an opportunity to review a draft of the findings and they are confident they will be able to cut the amount of findings from the last audit. PERF had approximately thirty findings at the end of FY04 and anticipates a reduction to fifteen findings. Mr. Magid will provide a more formal report to the board at the next meeting.

- **Contribution Rates**

Mr. Adams provided more details regarding the hospital privatization issues discussed earlier for the counties of Clay, Allen, St. Joseph and Wells. Mr. Adams explained that the board has the opportunity to transfer \$14 million to the respective counties resulting in reduced contribution rates. Based upon board approval, these rates will take

effect January 1, 2006. Once PERF discovered that these assets could be transferred, Mr. Adams explained that each of the counties Board of Commissioners and County Councils approved the account merger authorization.

Doug Todd, from McCready & Keene, explained that PERF is giving the counties their money by reducing their contribution rate. He also noted that the counties will not receive a shock to their rates in 2007 because of a smoothing technique that is used.

**MOTION** duly made and carried to approve the new rates for Allen County, St. Joseph County, Clay County and Wells County effective January 1, 2006.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Regina Overton</i>
<i>Votes:</i>	<i>5 in favor, 0 opposed, 0 abstentions</i>

Mr. Adams explained that the board approved FY06 contribution rates in April 2005. In talks with employers, concerns were identified regarding how late in their budget cycle rates were communicated from PERF. Mr. Adams stated that he was pleased to be able to present to the board rates for FY07 four months in advance of last year.

Mr. Todd reviewed the actuarial valuations for each of the plans with the board. McCready & Keene's recommendation for the state is 5.5%, which includes a 1% COLA increase effective July 1<sup>st</sup>, 2006 through June 30, 2007.

Mr. Todd noted that all political subdivisions usually stay within 1% of their current rate. Mr. Todd made the following recommendations effective July 1<sup>st</sup>, 2006 through June 30<sup>th</sup>, 2007:

State of Indiana – 5.5%  
1977 Police & Fire Fund – 21%  
Judges' Retirement System – Contributions of \$15,013,543  
Excise Police & Conservation Officers' Retirement Plan – 20.5%  
Prosecuting Attorneys' Retirement Fund – 5.7%  
Legislators' Retirement Fund – Contributions of \$90,799.

Mr. Todd explained that judges and prosecuting attorney's received a raise this year which is why there is such a different from last years numbers.

**MOTION** duly made and carried to approve all actuarial valuations.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Chuck Schalliol</i>
<i>Votes:</i>	<i>5 in favor, 0 opposed, 0 abstentions</i>

- **Benefits**

- Line of Duty Death Benefit

Mr. Adams distributed a memo detailing the circumstances surrounding a line-of-duty death claim for Shadron K. Bassett with the Pulaski County Sheriff's Department that was paid in October

- New Units & Enlargements

Mr. Adams explained that two times a year employers can join the PERF plan and existing employers can enlarge the number of positions in the plan.

Mr. Magid reviewed the list of new units and enlargements for the board and requested approval.

**MOTION** duly made and carried to approve the new units and enlargements.

*Proposed by:*

*Bob Welch*

*Seconded by:*

*Chuck Schalliol*

*Votes:*

*4 in favor, 0 opposed, 1 abstention*

Kathy Ettensohn abstained because she is involved with one of the boards on the list.

**V. Date of Next Meeting**

The next board meeting will held on February 24<sup>th</sup> at 1pm. The remainder of the board meetings for 2006 will be held every other month, following the next board meeting, on the 3<sup>rd</sup> Friday of the month at 1pm.

**VI. Adjournment**

Meeting adjourned at 2:13pm.